Viewpoint

Oil Power and Adversity in Iraq's Experience: Case History of the Middle East

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Introduction

Many factors have contributed to the prevailing instability and declined power of Iraq and the Middle East[1]; the oldest is the Arab-Israeli conflict, but also included are cultural intolerance and social traditions, non-democratic ruling practices, state rivalries and foreign interventions, Iraq's internal and external policies, as well as the availability of crude oil production (exports) and reserves. Since oil remains the single most important fuel in the world, then the global energy security position will not get better if instability persists in Iraq and the region.

Strategically, Iraq's bitter experience shows that only by economic advancement, not the oppression of freedom and individual liberties or inciting armament races among rivals, the stability, prosperity, and peace in the Middle East, as well as the flow of the precious non-renewable energy supply to the world market, can be ensured.

Iraq's economic experience over the last six decades reveals how the dynamics of the strategic oil factor (revenues) could be institutionally manipulated by macroeconomic policies to stimulate economic growth and ensure the political stability of the country. In reflection of Iraq's interests, which has an effective position in the Middle East, this article analyzes the dominant role of oil on domestic economy and politics. The workable institutional conditions for putting the proposed policies into practice by the state; i.e. the political parties, the social classes and forces, the security and defense apparatus, as well as inter-state politics, are beyond the scope of this article.

Stability and Security Issues: Oil Power and Global Energy Scarcity

Speedy economic progress in Iraq is essential for maintaining liberties, political stability, social tolerance, and securing the energy supply for the world market. Although the fall of Saddam's regime unleashed (oppressed) new socio-political driving forces, oil remains the major factor in Iraq's economic progress and socio-political stability. It has been also the most significant factor in shaping Middle East politics and development in the last five decades.

In the 1970s, oil policy was behind the strength and the popularity of the Iraqi regime among the Arab nations. The Iraq-Iran war (1980-1988) was prolonged by the fuel of oil money. Iraq's invasion of Kuwait in 1990, which resulted in the 1990-1991 Gulf war, was triggered by Kuwait's exploitation of Iraq's oil field on its border. Despite the political isolation and economic burden by severe UN economic and commercial sanctions (1990-2003), the Iraqi regime retained wide political support of many Arab and non-Arab states, politicians, and intellectuals by giving them oil wealth as grants or at preferential selling prices under the umbrella of the UN "Oil for Food" program (1996-2003). Also, oil was a major factor behind the fall of Saddam's regime.

Oil power in the Middle East is also demonstrated in the recent emergence of the noticeable liberalized policies and political weight of the young Qatar state, which gained independence in 1971 and has a population of only nine hundred thousand, vis-à-vis the apparent receding political influence of Egypt which is inhabited by about 80 million people and has had a long history of civilization extending back more than 5,000 years, and was the pioneering leader of the contemporary Arab nationalist movement. The heat of the Lebanon crisis has been enflamed by oil revenues too. However, stability and economic progress can not only be assessed and realized by increasing oil production (revenues) that eventually led the policy-makers to put oil policy before advancing a long-term strategy for expanding their non-oil industrial production capacities.

The hard experience of Iraq shows that the rush for maximizing and excessively spending oil revenues without the clear guidance of a national vision, a well-defined economic strategy, and the application of institutional policies has reduced the opportunities for solid progress[2]. Specifically, the misuse of utilizing oil power and the misallocation of oil revenues have been feeding the roots of political and social instability in Iraq, as well as sustaining the Middle East region's fragile political position. Moreover, in Iraq and most of the oil-exporting countries in the region, excessive government expenditures and the application of fixed foreign exchange regimes have strengthened the existing hidden structural economic crises, but without easing the widespread social and political discontent. In Iraq, while oil wealth provides the "golden and historical" opportunity for progress and prosperity, the continuous high dependence on oil revenues became like the *Achilles' Heel* of the economy.

The required strategy for stability and progress in Iraq, therefore, must consider oil power as the main strategic factor in balancing sustainable economic growth, political stability, and social needs. On the same basis and given the distinguished features of other oil-exporting countries, the main objectives and elements of the "assumed" region's strategy could also be identified. Such an approach is different from the emphasis given by the foreign powers, especially the United States, to the decisive role of armaments in balancing the power among the states of the Middle East for retaining peace and stability[3].

James Russell has rightly argued that the "U.S. needs to reconnect its strategy, policy, and defense planning to regional environment if it is to have any hope of countering threats to its interests, not just in the Middle East but around the world"[4]. However, analysis based on the political aggregation of various problems that are prevailing in the individual countries of the Middle East and of the world's regions surpasses and hides the relative importance of individual instability factors[5]; i.e., the suggested strategy towards the Middle East was based on global strategic considerations rather than Iraq's own, and the region's, interests and resources. It considers oil price shocks or energy supply disruptions as a critical threat to global security emanating from the region, while ignoring the internal dynamics of oil factors in creating instability in the region itself.

The strategy may be understandable by some external parties, but it is not generally acceptable by the people of the region so long as its ultimate aim is confined to the supply of oil and biased to Israel. Even the business communities of the region have a different priority assessment of risk elements. They have identified them to include; conflict in Iraq, unresolved Israel-Palestinian conflict, heightened tension over Iran's nuclear program, impact of higher oil revenues, insufficient investment in infrastructure, and slumping securities markets.[6]

In the economic sphere, unconditional liberalization and free flows of foreign trade and capital that have been proposed and pushed by the IMF and World Bank over more than three decades have had also little success in the region. Their advocated policy for recycling excessive oil revenues to restore the supply and demand balance at the global level has thus not had any benefits to the oil-exporting countries. Also, the investment of the excessive oil revenues accumulated in the governments' "sovereign oil wealth funds" in global money markets would not help in sustaining indigenous economic growth and creating enough jobs to meet the existing high unemployment levels which can only be achieved by transforming the oil-rentier economies into oil-independent market economies.

Politically, during the last two decades, Iraq witnessed very serious political events and radical changes resulting in complete desolation of the state's institutions, the destruction of the public infrastructure, and the emergence of new political and social driving forces. Since the early 1970s, oil wealth arises as the most important internal factor that dominates the domestic politics and the economic affairs, and promotes the power struggle behind the prevailing crises in Iraq, as well as shaping the course of the economic and political development in the Middle East. In addition to financing the construction of the required public infrastructure and provision of basic social services and utilities, oil revenues in the Middle East have been used as powerful financial instrument to influence internal politics that resulted in more restrictions on political freedom and democratization, as well as affecting the foreign policies toward the ruling regimes.

Nevertheless, if the ruling authorities in Iraq and the Middle East could successfully use oil (revenues) principally for accelerating their economic, social, and environmental development, the road will be paved for ensuring political and social liberties, protecting human rights, activating democracy, retaining self-dependence for internal and external security, and maintaining political stability. Such success would certainly contribute to the global energy security and peace.

As a case history, Iraq's experience reveals that neither the former "Development Programs" during the 1950s,[7] or the "National Development Plans" of the 1960s, or the highly "Centralized Development Planning" assisted by pragmatic mixed economic policies of the Ba'ath regime during the period (1970-2003),[8] nor the post-Saddam's loose liberalized macroeconomic policies (2003-to-date),[9] have efficiently, though in different degrees, utilized the available oil wealth for achieving sustainable economic growth and employment, as well as lessening the country's high dependence on oil revenues. During the 1950s, strategic emphasis was given to the development of the agriculture sector, which was then changed to give the industrial development first priority during the 1960s.

Since 1970, agricultural development was on top of the planned priorities, although in practice the public industrial enterprises had the highest share of the government investment expenditures.[10] In general, however, the implemented development programs and plans with their associated economic policies did not help the country to escape from falling into the trap of a hidden economic crisis and its political hard consequences. In reality, economic growth has been either low or stagnant and unemployment, including disguised employment, continuously increasing and the living standards have been deteriorating quickly since the 1980.[11] Significantly, reliance of the post-Saddam's regime on oil revenues has also substantially increased despite the application of different economic strategies and policies. Indeed, with the increase of oil revenues and spending, the economic, social, and political problems have been deepening over time.

For the oil consumer countries, crude oil is the most strategic energy scarce resource, and thus, securing its supply from the oil-rich Middle East countries has been a prime concern of foreign powers, especially the United States. It was anticipated that oil demand would reach 116 million barrels per day in 2030; i.e. 37 percent up on 2006 and OPEC's share of world oil supply will jump from 42 percent in 2006 to 52 percent in 2030, and the increasing concentration of the world's remaining oil reserves in a small group of countries—notably Middle East members of OPEC and Russia—will increase their market dominance and may put at risk the required rate of investment in production capacity.[12] In 2007, the global demand on oil has increased by 1.7 percent and the world demand on Middle East's oil increased by 4.7 percent. The anticipated increase of oil demand will result in the increase of energy prices in the medium to long term in the absence of concomitant increases in supply-side investment or stronger policy action to curb demand growth in all countries.[13] Thus, rising global energy demand poses a real and growing threat to the world's energy security.[14] Therefore, maintaining the supply of oil becomes one, if not the main, factor behind the U.S. foreign strategy for retaining stability in Iraq and the region.

This may be a legitimate concern, but it must also consider the legitimacy of the economic and political interests of the oil-producing countries. Such a view is supported by the fact that the size of the region's economies and markets are not so attractive as to constitute a very important factor in the foreign strategies towards the region: the thirteen Middle East countries (all except Iraq and Palestine) have contributed only 2.8 percent of the world economy in terms of the comparable PPP GDP of 2006.[15] This is equivalent to only 5.8 percent of the aggregated PPP GDP's of the non-advanced economies. Significantly, the contribution of the oil sector to GDP was the largest.

At a time when the world is facing an interrelated energy and environmental crisis, as reflected by the continuous increase in the demand on crude oil and gas and the mounting need for the protection of the global environment by curbing carbon dioxide emissions,[16] the high increase in oil prices added more problems to the energy security of the main consumer countries that provoked severe competition for ensuring their own energy sources. Evidently, the prolonged energy crisis and its price increases constitute an important factor for the possible restriction of the growth of the world economy in the long-term.[17] Such great emphasis on the importance of oil is validated by the (controversial) possibility of quickly reaching the oil production peak; i.e., the rate of crude oil production will enter a terminal decline that highlights the severity of the energy provision in just four decades to come, in some estimates.[18]

For the oil-exporting countries, however, the energy concern has different implications. They are enjoying the financial benefits of oil exports and employing their energy comparative advantage for developing their petrochemical, refining, gas, and energy input-intensive manufacturing industries. Yet, they are also facing the oil adversity. The excessive availability of oil revenues generated by production or/and price increases incite the ruling elites to increase public expenditures at a level exceeding the absorptive capacity of the national economy.

Non-economic factors, especially the rise of Islamic extremism, are also important in perpetuating economic sluggishness, social rigidity, and political instability in the region.

The need for both the efficient use and conservation of energy by the consumer countries, as well as the rational use of the oil (production) revenues by the producers, are essential for a longer-term solution to the oil supply problem and to limit its negative internal and external political implications. In reality, effective policy to ease the oil-related instability problems that face both the consumers and producers could be arrived at by establishing an institutional dialogue and commitment on their mutual interests.

Theoretically, however, the existence of economic-rent of the crude oil and natural gas resources highlights the need for a realistic explanation of the impact of excessive surplus in public finance that emanates from oil exports on economic growth and the efficiency of the market. As in the case of Iraq, the application of economic success criteria; i.e., increasing the contribution of non-oil and indigenous private sector activities to GDP and public finance, increasing income and job opportunities, and the provision of basic education and health services, and public utilities, is essential to ensure political stability.[19]

Sluggish Economies and Political Instability of the Middle East

In the last two decades, the regional balance of the world order has significantly changed due to many factors; limited wars, proliferation of weapons of mass destruction, widespread international terrorism, rapid economic globalization and growth, technological progress, and political liberalization and spread of democracy.

But the Middle East countries, especially the oil producers, have not succeeded in increasing the region's share in global power politics, as well as their economic, social, and technological advancements despite their huge energy resources and strategic geopolitical position. Ironically, amid the turmoil in the global financial system triggered by the sub-prime mortgage credit crunch (from August 2007 to date), the recent political row against investment decisions taken by the Middle East oil-exporting countries to use their excessive oil revenues accumulated in the "sovereign oil wealth funds" for buying equities of the "troubled" multinational corporations, shows how uncertain, if not irrelevant, it is to pull out of high dependence on the oil sector through investment in the global financial markets.

Obviously, using the funds in the global financial markets may be useful in providing liquidity and may partially help to restore the current imbalance of the global financial system, but certainly these investment decisions will not help develop the indigenous economies where the non-oil industrial production capacities are in dire need of expansion and human development, and lack proper education and skill. Such investment moves will also not help to strengthen the political position of the oil-exporting states. It is this reality, not the implicit Middle East strategies and policies of the presumed "non-zero sum" power games, that has proven that past Middle East policies have failed to ensure proportional economic and political gains for the region and for individual countries. Much worse, the region has suffered the damages caused by this continuous political instability.

In identifying the reasons behind the region's lack of both internal and external effective involvement, the majority of intellectuals and liberal politicians who have been struggling hard for freedom and political democracy put the blame not only on the ruling authorities who have been exploiting oil wealth, Islamic orthodox thinking, tribal values, illiberal social culture, and the selfish rivalry among them, but not less important, they condemn the support given by the concern of the foreign powers, especially the United States, to the existing rigid ruling regimes for serving only their interests and Israel.[20] However, daily events and public opinion in the region substantiate the fact that the people of the region are willing to work hard for regaining their individual liberties and political freedom and are ready for radical economic and social changes. Also, there is general awareness among the people that the "oil boom" has made little and unsustainable improvement to their living standards.[21] These views are different from the assessment and suggestions given by some external parties such as the World Economic Forum (WEF),[22] and also different from the rigid definition of economic power and progress criteria used by the UN agencies, meaning mainly GDP and per capita income indicators.[23]

By the criteria of *real* economic size and growth rates, the Middle East region has indeed achieved very little compared to the other regions of the world. During the period (1990-1998), the average growth rate of the Middle East was estimated at 4.1 percent, and increased to 4.9 percent during the period (1999-2008). These rates were less than 7.3 percent and 8.1 percent achieved by the Developing Asia region during the same periods. Significantly, in term of GDP, the total size of the Middle East economies was estimated at only 0.807 percent of the world's economy in 1990 and then increased to only 0.987 percent in 2005.[24] This is less than the contribution of East Asia and the Pacific region that was 3.064 percent in 1990 and increased to 6.809 percent in 2005; Latin America and the Caribbean region that was 5.067 percent increased to 5.512 percent; and South Asia region that was 1.845 percent increased to 2.276 percent. Even the contribution of the economically stagnant Sub-Saharan Africa region to the world economy was estimated at 1.390 percent in 1990 and 1.393 percent in 2005. In this respect, Iran has the largest economy in the region and contributed 0.532 percent to the world economy in 1990, but Iran also failed to maintain this ratio in 2005 which substantially decreased to 0.425 percent. During the years 2005, 2006, 2007 and expected for the year 2008, the estimated economic growth rates were 5.4 percent, 5.6 percent, 5.9 percent, and 5.9 percent. Such performance is disappointing in comparison with 7.5 percent, 8.1 percent, 8.1 percent, and 7.4 percent growth rates of the emerging markets and developing countries.[25]

The u unemployment rate is also high in the region. Available statistics showed that unemployment levels in the Middle East and North Africa are estimated at 14.8 percent, which is much more than 4.2 percent in East Asia and the Pacific, 5.4 percent in South Asia, and the 9.65 percent in Latin America and the Caribbean region.[26] Indeed, unemployment in the Middle East poses a very serious problem that is potentially devastating to both political and social stability.[27] It is also significant to notice that the Middle East is the only region in the world where labor productivity decreased between 1997 and 2007.[28] Also, the existing wide disparities in income and wealth among people and regions of the individual countries have fueled the growing social discontent and sustained the political instability in the Middle East.[29]

Moreover, the region has suffered the damages from the chronic Palestine-Israel conflict, Israel-Egypt wars, Jordan-Palestinian internal rivalry, Israel-Syria war, Iranian Islamic revolution and its recent armament strategy, Iraq-Syria rivalry, Iraq-Iran war, Iraq’s invasion of Kuwait, the multinational military occupation of Iraq, and the rise and destruction of Al-Qaeda terrorists in Iraq and the region. Even the efforts led by the United States for pursuing radical political, economic, and social changes as part of the “New Middle East” vision and strategy have quickly faded in favor of the conservative and power-gripping ruling regimes. In Iraq, the Islamist Shiites and Sunnis have been the dominant power, but not the liberal or social democrats. The liberal Kurd parties in Kurdistan Federal Region (KFR) have already fallen in the oil-trap by misusing their share of oil revenues and their claimed liberal and democratic program is retreating in favor of the ruling elite interests and tribalistic rivalry. Their government’s vision that Kurdistan would be like Dubai Arab Emirate is another example of false policies.

Why has such failure been perpetuated over a long period of time? Was it the result of inter-state political conflicts and the mindedness that governs the internal politics and state rivalries, or was it due to the unhelpful intervention of foreign powers, the United States in particular, or because of the failure in achieving economic progress? What was the role of oil wealth that has been the main source of public finance and imports despite the low level of private savings (investment)? At the regional level, are oil revenues adversities spilling over to non-oil Middle East countries?

In general, it is often referred to various reasons that have contributed to the power decline of the region. The rigidity of authoritative and non-democratic ruling regimes supported by the tribalism culture, traditional social intolerance values, underdeveloped human resources, lack of private entrepreneurialism, a narrow social base of the middle class, and limited industrial production capacities have been blamed for economic slowness and political instability. Also important, negligence of armaments for self-defense and security and lack of the authorities’ political will to pursue aggressive strategies for building a strong state.

It is common sense that effective strategy should identify the most important factors that influence the current situation and be able to initiate the process of economic and social development. The strategy for dealing with the region’s sluggish economies and political instability should not be, therefore, confused or misled by the analysis that include almost all inhomogeneous factors which induced the prevailing situation; i.e., negligence of prioritizing countries' objectives and policies. Analysis must put emphasis on the extreme importance of oil power when dealing with the region's instability and relative economic decline. Iraq’s experience provides ample evidence to justify this conclusion.

Effects of oil revenues have overshadowed the normal processes of economic and political development where the hard work of people and individual initiatives, private savings (investment) and capital accumulation, improving productivity, and mobilizing taxes for financing the government expenditures and public investment in infrastructure would raise economic growth and employment and accelerate social development. Also, oil revenues financed the increasing high level of imported consumer goods and products despite very low level of non-oil exports; i.e., earnings of hard currencies from the exports of industrial products are insignificant in value. As a result, private savings relaxation and conspicuous consumption behavior characterized domestic activities. In different words, the people of Iraq and the Middle East are, at present, highly dependent on government expenditures, while the governments are heavily dependent on oil revenues that are determined by external economic and political factors.

The current economic situation in the Middle East is different from the world-wide belief that oil revenues have made a considerable contribution to sustain economic and social development in terms of GDP per capita growth and productivity improvement. More precisely, while oil revenues are necessary to finance the physical and social infrastructure projects, and stimulate the economy, but ultimately they generate circumstances that lead to restrict the expansion of non-oil production capacities and improving the productivity and suppress liberalization of the political activities. In fact, it is misleading to suggest that GDP and per capita income growth adequately represent solid economic progress in the oil producing countries.[30] As time constitutes a binding constraint on future utilization of oil wealth, the situation in the region is not rosy as is widely propagated.

For decades, the Middle East region has been roughly characterized by the dominance of three main political powers; first, the ruling regimes, except Iran, comprise what is loosely called in public political literature the “Arab system.” It is based on the unified Arabic language and Muslim religion, but in reality it has many diversified and conflicting social, political, and cultural features. Second, the political entities led and manipulated by the United States to control the existing driving forces in order to ensure the security of Israel and maintain the flow of crude oil. Third, the minority groups of the “anti-west policies and anti-ruling regimes” supported by Iran, who are trying to change the power balance in their political favor. The “Arab system” has the most effective power in the region. Iran, though less influential than Iraq, has a common religion that supports its ambitions to associate its strategic interests with the Arab mainstream politics. Indeed, Iran always showed strong political will in playing a leading role in the region's power order as recently manifested by its ambitious in pursuing traditional armaments and a nuclear program and its direct involvement in Iraq’s troubles.

Politically, the weak positions of the ruling authorities and discredited elites in the Middle East are closely related to their incapability of inspiring their citizens in building their states. Unlike the case of Iran, the emptiness of national pride is evident in the continuous security and political dilemma facing the ruling regimes since 1980. The current political debate, though disorderly and limited, among the intellectual and ordinary people reflect the wide extent of disappointment among Arab nations. Recognition of such a problem is essential to develop a worthwhile institutional government apparatus and nation-wide vision and discipline with a clear agenda for providing the requirements of the state security and economic progress. Indeed, a state without national identity and visionary goals is bound to fail. It is a striking phenomenon that the political and economic management of many states in the region have more similarity with private business and companies’ management than with acting like a state for realizing their visionary goals and sharing the region's power.

A state with national pride and an ambitious vision could inspire its people to hard work, discipline, and active participation in the economic, social, and democratic political development process. In fact, the lack of state' vision explains, to a certain extent, why the negatives of the Israel-Arab war in June 1967 continued and the positives of Arab nationalism declined among the Middle East nations until the present time. It is the effects of the excessive oil revenues spending that hide the nations' need for strong states in the region. Iran is a different case in this regard. It is true that the present Iranian regime has so far failed in satisfying the Iranian economic, social, and political objectives. However, it is also true that they have succeeded to persuade their people and other Middle East nations that they have a legitimate and clear nation-building vision with a nuclear capability to ensure their share in the region and world power order. Astonishingly, the popularity of Iran's position among Arab intellectuals is apparent, and partially stems from their deep disappointment in the propagated ideologies that cause enough confusion to their states' identity.

The Central Role of Iraq in the Middle East

Iraq has the second largest crude oil proven reserves in the world estimated at about 115 billion barrel with likely reserves of 250 billion barrel. Its pre-1990 production capacity reached 3.5 million b/d, and present production of about 2.5 million b/d can be increased to 6.0 million b/d in few years.[31] By increasing its production capacities and proven reserves, a stable Iraq could have an important impact on relatively reducing oil prices as well as easing the global energy security concern by extending the oil production peak time. However, Iraq's importance in the Middle East exceeds beyond its abundant oil wealth.

Modern Iraq has many distinguished political, social, culture, and economic characteristics compared to the other Middle East countries. Nevertheless, it has enough common features and a geopolitical position that put it in the center of the major events and developments in the region. Its importance exceeds the realm of economics as the country owning the second largest crude oil reserves in the world after Saudi Arabia. The events that followed Iraq's occupation highlight its crucial importance to the region and the world.

In the early 1950s, the rise of the Arab nationalism movement was the most politically significant development in the Middle East during the 1950s and 1960s.[32] In addition to the Arabs' need for self-identity recognition, this movement was aroused in response to the threat posed by the establishment of the state of Israel in Palestine in 1948. Amid the Arabs' discontent in the policies of the ruling regimes, the movement raised the hopes for restoring national pride and unity, namely to establish a strong Arab state that would dominate the geopolitical area from the Arabian Gulf to the Atlantic Ocean, and to be capable of self-defense against external threats. The movement's ideology was based on the common share in language, race, religion, history, culture, and social values and tradition. The Arab nationalism of Nasser did spread widely and quickly spread through the region. In our context, the significance of Arab nationalism reflects the wide belief in that the security of "the Arab nation" should be of first priority in the politics of all Arab countries. This superimposed ideological doctrine had a tremendous impact on the security, political, economic, and social affairs of Iraq and the Middle East countries for many decades.

Indeed, it still has some effects in the political processes of the region. In response to the Arab nationalism appeal, the "Arab Socialist Ba'ath Party" was established in Iraq in the early 1950s. There were other Arab nationalist groups in Iraq, but they were less effective in shaping the policies of the country. Since then, Arab nationalists consider Iraq as the third pillar, with Egypt and Syria, in the contemporary Arab renaissance. After the fall of Iraq's monarchic regime on the 14th of July 1958, which was followed by four years of a popular liberal and socialist movement, the country became the center of foreign conflicts and Arab rivalries.

As mentioned earlier, the foreign intervention in Iraq's domestic politics has always been motivated by their interests in its oil wealth. In 1961, the then government headed by the president General Abdul Kareem Qasim issued the famous Law No. 80 to terminate the concessions given to the foreign companies for crude oil production and exploration in the whole country, by limiting their right to less than 1 percent of Iraq's area; i.e., the government retained 99 percent of the country's area from the monopoly granted to foreign companies in 1926. It was widely believed that this dispute with the oil companies was one of the main factors behind the fall of the government in February 1963.[33]

Since 1963, Iraq has been governed by the Arab nationalist parties followed by the Ba'ath party control from July 1968 until its fall on 9 April 2003. Since the 1970s, the Islamic groups have gradually replaced the popularity of Arab nationalism, and by the end of 1980s they became an important political and social force in Iraq and the Middle East. The Islamist parties, at present, are strong enough in suggesting their wider security concept to include all Islamic and Arabic countries.

In fact, Iraq's importance has deeper roots in the history of the Middle East. A quick glance at its old history from the unrelated Sumer civilization through to the Islamic era shows how significant was its contribution to the economic, social, scientific, and cultural evolution of the region.[35] In recent history, the competition among big western powers was aroused by the newly discovered crude oil in Iraq at the end of the nineteenth century. Prior to that date, Britain used Iraq's strategic commercial position as a road to India. After the First World War and the fall of the Ottoman Empire, the modern state of Iraq was established in 1921 under the British mandate and gained independence in 1932. Although after the war, the victorious big powers reached joint agreement on their oil interests as well as with the Iraqi authorities in 1926, competition especially increased between the British and the United States to influence the Middle East politics and Iraq.

After the Second World War, the British mandate authorities in Iraq recognized the importance of promoting its economic development in order to counter the increasing efforts of the United States and the then newly emerging USSR to control the region. As a result, the "Iraqi Development Board" was established in 1950 and the "Development Programs" were implemented using oil revenues for financing the required public infrastructure projects. By preparing the political, administrative, and the technical institutions for performing the tasks of economic and social development and the execution of the development programs, Iraq indeed placed itself as the pioneer in development planning and efforts among the Middle East countries. Iraq's importance ascertained further by the apparent attempt of the then Iranian Prime Minister Mohamed Musadiq to nationalize the foreign-owned oil industry in Iran in 1952. Since then, the political and economic role of Iraq and Iran became so essential in maintaining the region's stability. During the 1950s and 1960s, however, Iraq made little economic achievements and witnessed domestic political troubles that began with the increasing opposition to the "Baghdad Security Pact" which was designed and sponsored by the United States and included Iraq and Turkey and was later joined by Britain, Pakistan, and Iran in order to counter the widespread support given by the Arabs to Nasser's anti-West policy.

In February 1958, Iraq joined Jordan in forming the political "Arab Union" to further enhance the political and military front against the Arab nationalism movement which was advanced to form the "United Arab Republic" between Egypt and Syria in the same month. On the 14th of July 1958, the Iraqi military junta supported by the underground opposition political parties staged a revolution that replaced the Monarchy by the Republic. The following period (1958-1963) witnessed serious political instability. As a result, in February 1963, a new military coup succeeded in toppling the First Republic and the Ba'ath party controlled the new regime, but only for nine troubled months. Afterwards, other military Arab nationalist officers took power until 1968. In July 1968, the Ba'ath party staged its second military coup and succeeded in controlling the power for three and a half decades (1968 -2003). During this period, the regime waged the long war with Iran (1980-1988) and invaded Kuwait that resulted in the second gulf war (1990-1991). In both wars, the Middle East countries found themselves involved in military and political troubles. Consequently, Iraq bears the heavy burden of those wars, especially the catastrophic impact of the unprecedented UN economic and commercial sanctions. Since the 9 April 2003, Iraq has been militarily occupied by foreign powers led by the United States and Great Britain.

All these wars' damage, political disturbances, and social upheavals have caused directly and indirectly huge suffering in Iraq that immediately extended to the region. Indeed, they have contributed substantially to the declining power and instability of the Middle East for the last five decades.

The fall of Saddam's regime by foreign invasion was an historic and the most radical change in modern Iraq. The invasion removed one of the most politically oppressive and socially discriminating regimes ruling the country in recent history. The Iraqis who regained their liberties have enthusiastically welcomed the promising change for the establishment of a democratic multi-party political system and laying the foundations for a dynamic economic system based on free market conditions and an active indigenous private sector.[35] They have had great hopes for achieving high economic growth and employment and the provision of their necessary products and public services and utilities. They have had faith that the new authorities with the help of United States would efficiently utilize their oil wealth and resources, regulate the economy, and rebuild the damaged physical, social, and environmental infrastructure.

However, an important segment of the Arab people and many regimes in the region did not share with the Iraqis in their prospects due to their fear of the anticipated spread of political and social freedom and democracy in the region. Some individuals, companies, and governments who lost their privileged financial treatment and grants made to them by Saddam also acted against the new regime. In addition, the anti-U.S. sentiments, and the active role of the Arab Islamic parties were very effective against the new regime. Nevertheless, a large segment of the Arab intellectuals were anxiously waiting for the fulfilling of the loud and bright promises made by the United States and the new Iraqi authorities. Unfortunately, the disastrous events of the past five years of occupation have diminished the Iraqis' hopes, as well as of the Middle East nations. There were various reasons for this failure; top among them was the application of flawed economic policies and misuse of oil revenues.[36] Even the individual freedom, the only and most important virtue of that change, has been heavily restricted by the terrorist attacks, political chaos, and the resulting sectarian and social upheaval. Both the U.S. authorities and the elected Islamic parties that dominated the government share responsibility in restricting the individual liberties and democratic practices, constraining social progress, and depressing secular values. The active involvement of the rival neighboring countries in the armed activities of the pro-former regime, the terrorist Al-Qaeda group, and the sectarian Islamic groups mobilized their armed and civil forces against the new regime and the multinational military forces. Their actions have added new problems to the already tense and unstable situation of the region. The unpredictable post-war events have induced more reasons for the instability in the region. The dominant totalitarian and tribalistic non-democratic regimes in the region have been very conscious and worried about the possible spread of the individual political and social liberties and democratic ideas. So, instability still characterizes the political and economic scene of the Middle East, and this can only be balanced by the future stability of Iraq.

Growth and General Equilibrium: Oil Revenues, Financial System, and Foreign Exchange Regime

In Iraq, the continuous flows of high level of oil revenues and spending, where the financial system and foreign exchange regime are rigid, have created successive short-term disequilibria that built up inflationary pressures and raised the need for imports and government expenditures, which eventually led to higher dependence on oil revenues (exports). This vicious circle is deepening with both the continuous increase of oil revenues and the persistent prominent economic and social problems; i.e., low individual income, unemployment, inflation, poverty, and the lack of public social services and utilities.[37]

Available information indicates that Iraqi government expenditures during the period (23 May 2003-31 December 2006) were valued at about US$82.0 billion. Oil revenues during this period totaled about US$78.0 billion; i.e. 98 percent of total government expenditures and 95 percent of total public revenues. This high level of expenditures continued during 2007 and the latest financial records reveal that total value of oil exports was US$13.814 billion during the first half of the 2007, and total cash payments was US$12.758 billion during the same period. The overall public finance position since the fall of Saddam's regime until June 30th 2007, can therefore be summarized as follows: total value of oil exports was US$84.256 billion plus US$14.602 billion mainly from the residual balance of the "UN Oil for Food" program and other sources; i.e., total cash receipts was US$98.858 billion. Total cash payments during the same period were US$89.868 billion; i.e., the net excess of receipts over payments was US$8.990. Most of the payments; i.e., US$56.279 billion were allocated to the ministry of finance and a total of US$22.585 billion made to cover the letters of credits to the benefits of Iraqi entities. Also, a total of US$7.467 billion was paid to finance the contracts administered by U.S. agencies. Only US$1.254 billion was paid for Iraq's external debt.[38]

This information clearly shows that Iraq under occupation has had no financial constraint on economic development; especially in comparison with the situation during the 1980s and 1990s until 9 April 2003, where the country experienced severe public finance problems. However, efforts have miserably failed in dealing with the existing economic stagnation, production decline of basic products such as electricity and clean water, high unemployment, increasing poverty, deterioration of basic social services and utilities such as public education and health, and widespread corruption, etc. Many reasons were behind this bad situation; among the main were the terrorist attacks that were effective in the destruction of the country's physical infrastructure, basic utilities, public enterprises, and industries.

Obviously, these criminal indiscriminate attacks have restricted the normal economic activities of the ordinary people. Not less important, however, the application of irrelevant economic strategy and policies was also behind this failure; i.e., the government institutions supported by the United States' efforts have failed in managing the mobilization and allocation of the available abundant resources, especially oil revenues, and encouraging the indigenous private sector by improving investment environment.[39] In 2006, Iraq was classified as the most corrupt country in the world, where public resources diverted to the dominant politicians and private gains on a scale that has never been seen in the modern history of the country.[40] Corruption is the result of the government high expenditures financed by oil-rent in a country where individual incomes are low, unemployment is high, widespread poverty, living standards are low, and where the government and private financial institutional capacities are lacking; the finance departments, the central bank, the audit office, the banks, the stock market, and insurance companies.[41] Even worse, Iraq in 2005, 2006 and 2007 was categorized as a failed state; in later years it was the second worst among 177 states.[42] The economic failure has sustained the political and social problems and strengthened the existing vicious circles of the prevailing prominent problems. Evidence is ample to confirm that at present there are strong relationships between the increase of violence and economic problems; unemployment and poverty were behind the "recruitment of paid fighters" by the militias, but not ideology or political goals. A similar situation was cited in 1920 by the well-known credible Iraqi sociologist Ali Al-Wardi; where extraordinary inflation caused by the high level of expenditures of the then British occupiers and the increased taxes that resulted in substantial increase of the cost of living, were major reasons for Iraq's 1920 revolution against the British army and authorities.[43]

Since 1980, however, the oil revenues gradually decreased and were only enough to maintain the basic public services and to financially support many of the public inefficient enterprises and some basic imported commodities and products. By the end of 1990, the Iraqi economy began to decline at an accelerating pace and the ugly face of high dependence on oil exports (revenues) appeared. In consequence, the living standards have catastrophically deteriorated and the basis of the middle class has diminished.[44] In the post-Saddam period, the new radical liberalization of economic policies, as materialized in the "Orders-Laws" issued by the former Iraq's occupation governor, have failed incredibly quickly.[45] As an alternative, a new economic strategy was introduced as part of the United States' new “strategy to win the war in Iraq” which offered nothing new and therefore failed without public notice.[46] Then, the government produced the “National Development Strategy 2005-2008” which was no more than an annual budget of three years' span. All these policies have quickly proven unsuccessful. In early 2007, the government produced the “Iraq’s National Security Strategy 2007-2010” intended to tackle the security problem and turned to include inhomogeneous political, security, economic, social, and cultural ideas and various economic and social policies. *It was like tasteless mixed salad of fruits and vegetables made for sale to all*.

Another aspect of economic policy failure is also evident in the misuse of oil revenues and one-sided economic measures taken by the Kurdistan Regional Government,[47] while it is extremely important to recognize that the national vision and economic strategy as well as the macroeconomic policies can not be overruled by the Federal government. This is different from the use of Federal annual budget that is constitutionally possible and administratively preferable. The unified economic strategy and macroeconomic policies are essential to ensure overall economic progress as well as the political unity of Iraq.

Successful economic policies are judged usually by the criteria for increasing private investment and consumers spending that stimulate economic growth and employment of resources. Such simple analysis for regulating an open liberal and mature economy might not be relevant to restructure and reallocate the existing assets and resources of the rentier-state to replace the political instability by economic growth sufficient to sustain high level of employment and the social and public services and utilities. In addition to rationalizing the allocation of public oil revenues among the investment in non-oil production activities through the application of well-defined project evaluation criteria and for financing the government current expenditures, the state should carefully manage two main economic policy aspects; controlling the financial system, and the foreign exchange regime.

As the current credit-crisis reveals, the management of the financial and monetary system, even in the advanced economies, can not be left to the market forces only. To be consistent with the “interrelated” production and consumption activities, the financial and monetary system should be efficiently institutionalized and regulated by their controllers; i.e., the state (government) through public finance, the central bank to administer money liquidity and foreign transactions, and the private financial entities; the banks, insurance companies, stock markets, and financial services. In reality, where public and private financial institutions are still underdeveloped, the actual excessive spending of oil revenues by the state and public enterprises have created built-in dynamics that cause a wide divergence between the financial requirements for maintaining high level of production, investment, and consumption activities on one side, and the ability of the financial services to meet them on the other. Also, the divergence rises between the financial services and money liquidity. And since the main part of effective demand is controlled by the state, such divergences can not be rectified by market forces automatically. Obviously, the divergences have negative influences on the economic efficiency of the market as expressed by the inefficient mobilization and distribution of resources, as well as satisfaction of the consumers’ utilities. Iraq’s experience since the 1970s provides evidence on how such dynamics work through the government's annual budgets, finance of public enterprises, finance of imports, fixed foreign exchange regime, and lack of private entrepreneurialism that ultimately leads to a huge waste of resources and high inflation.

Non-democratic practices play an important role in sustaining such dynamics. This is a direct result of the state’s high dependence on oil revenues rather than on the citizens’ contribution to public finance, while at the same time, the citizens rely heavily on government expenditures for maintaining their living standards. The iterative process of this interdependence was strengthened by the state’s rulers who are desperately in need to the citizens’ political loyalty. As oil revenues increase, the authorities are encouraged to use public finances for appeasing the citizens and easing their political complaints and social discontents. In parallel, the citizens increase their pressure on the authorities for expanding public expenditures on services and utilities that are financed by oil revenues.

The post-Saddam period also experienced this dynamic of the excessive spending of oil revenues though with different players and beneficiaries.

There is nothing wrong with the policy of increasing oil production for utilizing the abundant oil revenues (economic-rent) in financing the urgently required investment and especially in public infrastructure projects and imports. Also, there is nothing new to suggest that better allocation of oil revenues among various uses is necessary to maximize its benefits. However, neither the "economic" value of crude oil, nor its management by the state matches with the basic efficiency assumptions as theoretically defined by the free market conditions. It was suggested by the "Special Theory of Economic Rent and Free Market Efficiency (STER) that the continuous generation of excessive economic-rent; i.e., excessive oil revenues spending, would violate the efficiency principles of the free market and therefore justify the economic role of the state until the transformation of the oil-rentier economy can be achieved.[48] This could be realized by implementing the economic strategy and policies to ensure a dominant role of the indigenous private sector, constructive state's macroeconomic policies, and application of certain criteria for public infrastructure and enterprises that have to be determined by the central authorities. For pursuing the advocated strategy and policies, the economic role of the state and the private sector should be restated in view of practical considerations. These postulates were examined against the doctrines of classical and contemporary theories with their implicit economic policies.[49] Moreover, Iraq's experience suggests that there are three possible developmental phases for the development of the oil-rentier economies; i.e., an oil boom or financial prosperity, a complete economic collapse, and an alternative for transforming the oil-rentier economy into an efficient dynamic liberal one.[50]

In the oil-rentier countries, oil revenues provide the main source of foreign currency for increasing the required imports which are necessary for public investment and consumption that dominate effective demand, as well as help for easing the problems of inflation, low individual income, low productivity of labor, lack of basic education and public health services. In addition, the accumulation of excessive oil revenues in their U.S. dollar (US$) reserves have a share in the global aggregate demand. This is why the World Bank and IMF advocate that oil-rentier countries increase their public expenditures and imports. Ironically, such advice aggravates further the domestic hidden economic crisis; i.e., high dependence on oil revenues and caused further departure from the diversification of the indigenous economic activities. Such a position clearly reflects that there are mutual interests for the oil consumers and producers countries that have to be considered in a reasonable way.

In addition to the shortcomings of the financial system, the foreign exchange regime has its share in restricting the economic growth and inducing political instability. Iraq, like most of the oil-exporting Middle East countries, adopted the US$ peg foreign exchange system in order to maintain economic stability; i.e., a fixed rate of Iraqi Dinars against the US$ would maintain both an internal and external monetary equilibrium. Two main economic reasons were given to justify the system: first, oil exports are valued in US$ and oil revenues finance most of the government budget. Second, the U.S. economy is the world's largest and most dominant.[51] However, in practice the doubts aroused about these arrangements as the recent devaluation of the dollar against the world's major currencies exerted inflationary pressures on the Middle East economies. In response, much attention was focused on the inflation caused by the deterioration of the foreign exchange value of the US$. Many economists have strongly suggested to replace the US$ peg regime by a more liberalized one. However, most of the financial and monetary institutions in the Middle East are defending the economic necessity of the regime.

But despite the differences between the two opinions, they both consider that the selling of crude oil commodity using the US$ is crucial issue behind the necessity for applying the fixed foreign exchange regime. Moreover, some even suggest that there is a reverse relationship between the oil prices and the value of the dollar. The question is, however, what is the reason that restrict the immediate change of the oil US$ revenues to other currencies that are required by the oil-exporting countries? Why are the public financial resources of the national annual budgets (and the foreign reserves) actually valued in US$ even after its implementation? Is it a technical issue, such as the difficulty of revaluating the government budget revenues and reserves or something else? Who are the beneficiaries and losers in maintaining this regime? Thus, it is a misleading suggestion that the increase of oil prices must be considered the same or synonyms to the change of value of the US$. In this respect, the social and political cost-benefit resulting from changing the purchasing power of the national currency vis-à-vis the US$ is as essential as its economic cost-benefit criterion.

In reality, the US$ is the main international currency and, therefore, it constituted a large portion of the Middle East countries' reserves that are largely used in the commercial settlements and imports. Therefore, the US$ value against major currencies would have impacts on the Middle East oil-exporting economies, as for other economies. Equally important, there is no justification to restrict the national monetary policy by the monetary policy of the United States.

In a wider context, external disequilibrium resulting from the adaptation of the fixed foreign exchange regime, can not be related to the oil price increase induced by speculators who are using the future oil contracts as a product of the international financial system to avoid the depreciation value of the US$. That is to say, oil prices are cheap in comparison to other raw material prices. This is another misleading analysis. Speculation on oil prices is a reflection of the free market failure in maintaining the economic efficiency of producing and consuming oil and other energy resources. In fact, the widespread of speculation means over-valuation of oil price, and consequently, as in all exorbitant speculations on other commodities, oil prices are bound to fall under the power of supply and demand law. Otherwise, oil prices are increasing simply because of demand increase over supply.

For the oil-exporting countries, the real long-term solution, however, lies in the state policy of controlling oil-rent spending while regulating the financial system and foreign exchange regime to maintain the internal and external short-term equilibrium.

Conclusions

Iraq and the Middle East region have the potential for economic growth and prosperity; they are endowed with human capabilities and abundant natural resources, especially the strategic crude oil and gas scarce energy, and where people strive for freedom, social development and a better quality of life. Yet, Iraq is suffering from acute instability and economic deterioration and the region is facing political and economic challenges. *Misuse of oil power and the excessive spending of oil revenues, especially the conspicuous consumption, quickly spread their adverse impact among the Middle East region analogous to the physics of hydrostatic principle in communicating vessels.*

Three major factors were behind these problems; excessive oil production (revenues) and authorities spending in pursuing biased illiberal policies to remain in power, the failure of the free market mechanism to match the excessive oil-rent, and the foreign interventions and severe competition to secure long-term supply of crude oil and gas energy.

Given the binding time constraint, stability and economic progress in Iraq and in the region will be maintained through rational allocation of oil revenues and effective macroeconomic policies that have different tasks and influence on economic growth as compared to their role in advanced economies. Crude oil and gas energy supplies to the world markets would then be more secure.

An analysis of Iraq's experience reveals how the state policies could balance the need for economic growth and industrial diversification with the need for social and political stability. For realizing this goal, the following major interrelated economic issues have to be considered by the country's decision-makers:

- Oil policy must be guided by a future national vision and economic strategy and policies that aim principally at increasing economic growth and employment based on expanding the non-oil industrial production capacities, human development, and a bigger role of the indigenous private sector.
- Oil revenues must be allocated by the central government mainly to finance the public infrastructure projects, basic social services, and utilities in the framework of a national development plan where all objectives, policies, and priority criteria for the allocation of oil revenues should be observed by the Federal region(s).
- The macroeconomic, fiscal, and monetary policies should be designed to increase investment and promote the indigenous private sector activities for achieving economic growth stability sufficient to improve the living standards and support fair distribution of benefits among people. In addition, the fixed foreign exchange regime must be gradually liberalized to sustain the free market efficiency.

About the Author

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References

1. For the purpose of this paper, we define the Middle East region as to include the main oil-exporting countries; Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and Yemen, as well as Egypt, Jordan, Lebanon and Palestine. Except including Iran, the countries of Middle East are the same members of the United Nations—Economic and Social commission of West Asia (UN-ESCWA). Also, except Palestine, the given number of the Middle East countries is the same of the Middle East definition given by the World Bank and IMF. See: IMF, "World Economic Outlook Report 2007," 15 October, 2007. By political criteria, the United States defines the Near East region to include all Arab countries of the Middle East, Israel, and the Arab North Africa countries. The IMF and World Bank have also categorized Middle East and North African countries as another regional classification. By economic criteria, the IMF and World Bank included Israel in the Europe region.

2. See: Sabri Zire Al-Saadi, "Iraq's National Vision, Economic Strategy, and Policies," *Strategic Insights* 5, No. 3 (March 2006) and "Iraq Needs a Radical Change in Economic Strategy, and a Political Commitment to National Criteria for Oil Wealth Utilization," *Strategic Insights* 6, No. 1 (January 2007).

3. It seems that the United States advocates consider the state's self-defense through armament is the logical option to maintain regional and global stability. See James Russell, "Regional Threat and Security Strategy: the Troubling case of Today's Middle East," *Strategic Insights* 6, No. 6, December 2007.

4. Ibid.

5. The global risk network identified twenty-three core global risks to the international community over the next years. They were grouped in five economic risks, five environmental, seven geopolitical, four societal, and two technological risks. See: World Economic Forum (WEF), "Global Risks 2007," global risk network report, Geneva, January 2007. Russell propositions assumed that the U.S. strategy should consider the global risks defined by the WEF as basic assumptions

6. See: WEF, "WEF on the Middle East: the Promise of a New Generation," Sharm El Sheikh, 20-22 May 2006.

7. During the 1950s, four development plans were prepared; the first covered the period (1951-156), the second modified the first and covered the period (1955-1959), the third covered the period (1955-1960), and the forth modified the third and covered the same period. The implementation of the first and the third program lasted only one year for each of them. Information and sources were prepared and assessed by the author in his (unpublished) book (Arabic) entitled "The Economic Experience of Iraq: Oil, Democracy, and the Market in the National Economic Project (1950-2006)."

8. During 1961-1980, four national development plans were implemented; the "Detailed Economic Plan (1961-1964)," the "Five Years Economic Plan (1965-1969)," the "National Development Plan (1970-1974)," and the "National Development Plan (1975-1980)." In between, the "Temporary Economic Plan 1959-1961," which was no more than continuation of the Forth Development Program (1955-1960) plus a number of industrial projects included in the Iraqi-USSR economic agreement, and the annual investment program for the year 1975 were also implemented. Ibid.

9. Only loose economic policies and procedures have been introduced, and three annual budgets were hazard and partially implemented. See: Sabri Zire Al-Saadi, "Iraq's Post-War Economy: A Critical Review," *MEES* 47:14, 5 April 2004.

10. See: "The Economic Experience of Iraq: Oil, Democracy, and the Market in the National Economic Project (1950-2006)," Ibid.

11. See: Sabri Zire Al-Saadi, "Oil wealth and Poverty in Iraq: Statistical Adjustments of Government GDP Estimates (1980-2002)," *MEES* 48:16, 18 April 2005.

12. See: International Energy Agency (IEA), "World Energy Outlook 2007," May 2007.

13. Ibid.

14. Ibid.

15. The GDP shares are based on the purchasing-power-parity (PPP) valuation of country GDP's. See, IMF, "The World Economic Outlook 2007," October 2007.

16. See: "International Energy Outlook 2007," Ibid.

17. Crude oil prices have increased by more than four folds since 2002 and its trend continues upward.

18. See: Guy Caruso, "When Will World Oil Production Peak," Administrator, Energy Information Administration, U.S. Department of Energy, June 2005. In these estimates, three assumptions regarding the rate of demand growth on oil; i.e., 1 percent, 2 percent, and 3 percent and the assumed peak year 2044 was the mean of those estimates.

19. See: Sabri Zire Al-Saadi, “Liberalization Strategy for Iraq’s Oil-Hostage: Alternative to Oil Power Dominance and Neo-Liberal Subordinate Economic Policy,” *MEES* 49, Nos. 42 and 43, 16 and 23 October 2006.

20. A daily follow-up of political and social events in the region supported by enormous liberal writings published in the daily newspapers and web-sites defend such general assessment.

21. Amid the oil boom of 2007, Salih Al-Shahwan, a Saudi well-known writer, has described the sever impact of inflation and high cost of living in Saudi Arabia on the living standards of people similar to that of Saddam’s threat to hit the Saudi cities by WMD during the 1991’s gulf war where people left their big cities to live uncomfortably in their family-roots old homes in desert areas and underdeveloped remote villages. See, Salih Al-Shahwan, “Aleqtisadia -The Arab (Saudi) International Economic Newspaper,” No. 5160, November 27, 2007.

22. See: “Global Risks 2007,” Ibid.

23. Calculated from the World Bank GDP estimates, see; World Bank, “World Development Indicators 2007,” table 4.2, 2007.

24. Calculated from the World Bank estimates for the Middle East and North Africa region by deducting the GDP of Algeria, Mauritania, Morocco, and Tunis. Ibid.

25. See, IMF, “World Economic Outlook 2007,” Table AI, page 215.

26. The Middle East and North Africa region includes Algeria, Djibouti, Sudan, Tunisia, Morocco, and Mauritania in addition to the 13 countries of the Middle East region as defined earlier. See: World Bank, “World Development Indicators 2007,” 2007.

27. Unemployment issue is very sensitive in the region and thus no reliable official statistics are available. The widely used rates of unemployment vary among the region’s countries from more than 30 percent (Iraq) to more than 10 percent (Egypt) and 5 percent (Saudi Arabia). However, as put by the International Labor Organization (ILO). “The Middle East region’s unemployment trend gives cause of concern,” and it estimated the average unemployment rate at 11.8 percent in 2007. See: ILO, “Global Employment Trend,” January 2008.

28. Ibid.

29. Although reliable statistical assessment of income disparities among the people and the individual countries of the region are not available, the daily living observation in the densely populated cities and rural eras support such general conclusion.

30. Some Arab (academic) economists and politicians have raised this issue, especially during the 1980s, and warned against the risks of increasing economic dependence on oil revenues.

31. Crude oil production reached about 2.5 million b/d in 2008, and it has been reported that the Ministry of Oil have plans to increase production to 6.0 million b/d in 2010. General assessment of the past, present and future of Iraq’s oil industry was given in: Issam Chalabi, “Iraq’s Uncertain Oil and Political Prospects,” *MEES*, part 1 and 2, Volume 50, Nos. 48 and 49, 26 November and 3 December 2007.

32. Though it has roots in the last years of Ottoman era, the movement has been promoted by Egypt’s revolution of 23 July 1952 under the leadership of the late Jamal Abdul Nasser.

33. An interesting assessment of such a conclusion which is widely accepted by the Iraqi politicians and oil experts who participated in the then negotiation between the Iraqi government and the foreign oil companies was given by Abdul Khaliq Hussein in his article titled "Role of Law no.80 in the Assassination of 14th July Revolution."

34. Mesopotamia, the ancient name of Iraq, has had attracted the competition and wars among the neighboring and foreign nations to control the kingdoms of Sumerians, the Akkadians, the Babylonians, the Assyrians (3700-539 BC). Then they came, the Persians, the Greeks, the Islamic Arabs (600-1258), the Mongols, and the Safvid's Dynasty of Iran, and the Turks (Ottoman Empire from 1534-1918), to control part or the whole country. During the Abbasid's period (750-1258), Iraq witnessed flourishing agriculture economy and promising industries. Since the Mongols occupied Baghdad until the fall of Ottoman Empire in 1918, Iraq went in the so called "dark ages" of backwardness. See: Taha Baqir, "An Introduction to the Literature of Ancient Iraq," Dar Al-Huriya for Printing, Baghdad, 1976. See also; Abdul Aziz Al-Doori, "The Economic History of Iraq in the Fourth Hijra Century," Center of Arab Unity Studies, Beirut, Lebanon, third edition 1995. An interesting historical review of industry in Iraq since the time of Sumer until the early years of modern Iraq was given in: Sabah Kachachi, "Industry in the history of Mesopotomia," (Arabic) Al-Adeeb printing, Baghdad, 2002.

35. Earlier propositions on the required new policies were given in: Sabri Zire Al-Saadi, "Economic Liberalization and Oil Policy in Iraq: Vision and Priorities," *MEES* 46, No. 29, 21 July 2003. Also, by the same author: "The Economic Revival of Iraq," *MEES* 46, No. 35, 1 September 2003.

36. See, "Iraq's Post-War Economy: A Critical Review," Ibid.

37. See: Sabri Zire Al-Saadi, "Success Conditions for Iraq's Oil-Rentier Economy: Special Theory of Economic-Rent and Free Market Conditions," *Strategic Insights*, No. 6, Vol. 6, December, 2007.

38. The International Advisory and Monitoring Board (IAMB) is an audit body for the Development Fund of Iraq (DFI) which was established pursuant to the UN Security Council resolution no. 1483 and holds the proceeds of petroleum export sales from Iraq as well as remaining balances from the UN Oil for Food program and other frozen Iraqi funds. See: IAMB, the annual reports and the latest of Ernest & Young, DFI, "Interim Result As of June 30, 2007." The DFI has been acting as a treasury agency on behalf on the international community.

39. See: Sabri Zire Al-Saadi, "Iraq's Vicious Circles of Economic Priorities Distortion, Misuse of Oil Wealth, and Political Weakness," *MEES* 50, No.16, 16 April 2007.

40. Iraq was ranked as the number 160, the lowest, among the 163 countries that were assessed by comprehensive corruption criteria included in the "Corruption Perceptions Index 2006." Report of Transparency International—the coalition against corruption.

41. On the centrality of oil revenues, seeds of corruption, monetary policy obsession, and lack of planning in Iraq, see; Misbah Kamal, "Oil, The state and Economic Policy in Iraq," *MEES* 50: 23, 4 June 2007.

42. Based on social, economic, political indicators, Iraq was classified as the most failure state after Sudan among 177 countries. Interesting, the report referred to the economic indicator was improved in terms of GDP growth in comparison to 2006. See: Fund for Peace, "Failed State Index," reports for 2005, 2006, and 2007.

43. See: Ali Al-Wardi, “Social Aspects of Iraq Modern History,” (Arabic) Vol. 5, Part 1, Baghdad, 1977, 16-32.

44. See: “Oil wealth and Poverty in Iraq,” Ibid.

45. Full evaluation of these policies was given in: “Iraq’s Post-War Economy: A Critical Review,” Ibid.

46. See also: “Iraq’s National Vision, Economic Strategy, and Policies,” Ibid. and “Iraq Needs a Radical Change in Economic Strategy, and a Political Commitment to National Criteria for Oil Wealth Utilization,” Ibid.

47. See: Sabri Zire Al-Saadi, “Success Conditions for Iraq’s Oil-Rentier Economy.”

48. Ibid.

49. Ibid.

50. Ibid.

51. A discussion on the viability of the foreign exchange regime in Iraq was also given in: Sabri Zire Al-Saadi, “Oil and Foreign Exchange Regime in Iraq,” *MEES* 47:36, 6 September 2004.